

## CHALLENGES FOR POVERTY ALLEVIATION IN LIBERALIZED

### INDIAN ECONOMY: AN OVERVIEW

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#### ABSTRACT

*In the year 1991 New Economic Policy was launched with emergence of liberalization, privatization and globalization and the preamble of higher rate of growth in income, employment and living standards to sustain the growth of Indian economy according to contemporary developed economies. As the result, '1991 economic reforms' increased the share of private investment and growth in 'macroeconomic indicators' without any distinction of private interests vs. public welfare. In the period of the post – reform era the curves of national income growth rates, per capita income, foreign reserves etc. raised upward but at the same time the values of Human Development Indicators and poverty ratios remain stagnant. It is more agonizing that with the growth of economy centralization of profits is increasing and gainers are providing only subsistence to them who are the cost bearer of this growth. This discrepancy not only reveals the uneven distribution of the growth but also provides evidence that development of any population depends not only on its own efforts but also on the public interest policies of the concern government. In these perspectives, it is a big challenge for the policy makers to maintain balanced fiscal accounts and higher 'growth rates' with more emphasis on the welfare provisions for poverty alleviation and multidimensional development of the deprived section of the society.*

**KEYWORDS:** Poverty, Policies, Health, Education & Employment

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#### INTRODUCTION

In the year 1991 New Economic Policy was launched with emergence of liberalization, privatization and globalization and the preamble of higher rate of growth in income, employment and living standards to sustain the growth of Indian economy according to contemporary developed economies. Thereafter, economic policies were formed with a prime objective of economic growth and were focused to encourage private investment in different sectors to apply technical as well as managerial reforms. As the result, '1991 economic reforms' increased the share of private investment and growth in 'macroeconomic indicators' without any distinction of private interests vs. public welfare. Accordingly, due to policy liberalism and financial crisis the government has shifted its 'common man welfare' responsibilities to the private sector. Undoubtedly, this shift of responsibilities has reduced some monetary liabilities of the government, but for a country where 29.5% of the total population (1.2-billion people in 2011) lived in poverty, the privatization of basic services has increased the amount of essential expenditure of the deprived section of the society.

It is a fact, that liberalization, privatization and globalization has expanded the economy and provided employment, higher incomes, large amount of investments and opportunities, but it is also a fact that the discrepancy at the levels of socio – economic classes and disparities at regional levels are still a big issue.

From the beginning, Indian economy is classified as ‘the haves and the have-nots’ with considerable distinctive quantitative and qualitative socio – economic characteristics. The majority of ‘the have-nots’ are associated with the specific backgrounds such as rural, tribal, deprived casts, landless and marginal farmers etc. and some common policy measures have been implemented for the betterment of this segment, but, the poverty is still a big issue as it was in the past. It seems that, to chase the higher growth rates, motive of the development of deprived population left behind which reflects in a large number of Below Poverty Line (BPL) households.

In these perspectives, it is a big challenge for the policy makers to maintain balanced fiscal accounts and higher ‘growth rates’ with more emphasis on the welfare provisions for poverty alleviation and multidimensional development of the deprived section of the society. There are some lacunas left behind in the planning and implementation of the poverty alleviation programmes according to changed economic conditions of the post-reform period of the Indian Economy as:

### **CONTROVERSIAL ‘POVERTY LINE’ AND LEAKAGES OF POVERTY ALLEVIATION PROGRAMMES**

In the year 1979, Planning Commission of India had formed a task force to redefine ‘poverty’ on the basis of essential calorie consumption by a household to survive and expenditure made to maintain this calorie requirement. The Centre for Policy Alternative has prepared a report about this poverty line and named it ‘Starvation line’, due to its solo base of calorie requirements/consumption. From the beginning, the concept of poverty was focused only on calorie needs of a household and the poverty line in rupees get decided according to prices of minimal nutritional requirements, which was always very low because of lower prices of cheaper farm products. Therefore, the cut-off line of poverty was Rs. 49/- per person per month in rural areas and Rs. 57/- per person per month in the urban area in 1973 which increased to Rs. 368/- and Rs. 559/- in year 2004-05. This is a big reason that the poverty related data and the reports based on above definition always noted as controversial. According to the World Bank the poverty line is based on expenditure amount of 1.25 dollars per day and it is estimated that more than 40% population comes below poverty line. In 2011, Tendulkar committee has emphasized on essential consumption expenditure for sustainable livelihood and for this the committee defined the poverty line on the basis of monthly spending on food, education, health, electricity and transport but the estimated expenditure of Rs. 27.20 in rural areas and Rs. 33.30 in urban areas a day as living below the poverty line. The fixation amount for this poverty line was too low. One more poverty line estimation was done by a committee headed by former Reserve Bank governor C. Rangarajan, which had considered people living on less than Rs. 32.00 a day in rural areas and Rs. 47.00 a day in urban areas as poor. In the recent years, the global Multidimensional Poverty Index (MPI) has played a significant role in measuring poverty in developing countries. The MPI assesses poverty at the individual level by capturing the severe deprivations that each person faces at the same time with respect to education, health and living standards. If someone is deprived in a third or more of ten (weighted) indicators, the global index identifies them as ‘MPI poor’, and the extent – or intensity – of their poverty is measured by the number of deprivations they are experiencing.

**Table 1: Comparing the Different Poverty Measures**

<b>Tendulkar Committee Poverty Line (2011-12)</b>	<b>Rural Rs. 27.2 (BPL Rural 217 million) Urban Rs. 33.3(BPL Urban 53 million)</b>
<b>Rangrajan Committee Poverty Line (2011-12)</b>	Rural Rs. 32.0(Rural 260.5 million) Urban Rs. 47.0(Urban 102.5 million)
<b>The World Bank (2016) Poverty Measures’ values for India</b>	

Table 1: Contd.,	
Multidimensional Poverty Index	0.283
Percentage of MPI Poor (H)	53.8%
Average Intensity Across the Poor (A) Percentage of Income Poor (\$1.90 a day)	52.7%
Percentage of Income Poor (\$3.10 a day)	58.0%
Percentage of Poor (National Poverty Line)	21.9%
Income Inequality (Gini index)	0.336

Table 1 clearly shows significant disparities between approaches for measuring poverty and therefore estimated percentage of the poor. In India 'poverty lines' are used to estimate the numbers of poor but due to lack of flexibility and frequency this method always get criticized. Moreover, these poverty estimations are widely used for poverty alleviation programs and policy implications but the drawbacks of these poverty estimation methods may cause of financial leakages at practice. Few of such inadequacies about defining poverty and policy implications are discussed here:

**Firstly**, the estimation of poverty line is not associated with the economic growth rates of the different sectors of the economy and so, this out-of-the-way fixation of the poverty line without any concern of the growth rates of the middle or high income groups makes the challenge of poverty alleviation more difficult.

The **second**, most of the poverty alleviation programmes are concerned with providing financial assistance either in form of money transfers to the poor households' account or by providing subsidies on their essential expenditures. Very few of these schemes are associated with generating sustainable employment or entrepreneurship.

The **third**, the meager financial background of the BPL families makes them low trustworthy for a considerable amount of loan or debt by the financial institution or the government. In such condition, without proper financial support and promotional measures the skill development programmes doesn't provide enough scope in improving the economic status of the concern families.

The **forth**, majority of the poor households are belongs to low Human Development Indexed states. These states are overpopulated with low indicators of economic growth and development. The financial limitations of the state governments have its own crisis while implementation of the 'common welfare programs'. Moreover, due to demographic transition the unemployment of youth is also an exigent issue in these backward states. Unfortunately, the sluggish industrial growth rate and mechanization in agriculture has shrunk the scope for poor unskilled labour force at their respective natives. Moreover, in the urban areas the jobs are not only skilled but also more competitive so the poor migrants from rural areas are bound to do meager works for their survival. It is also noticeable that the volume of urban BPL households is increasing with higher rates and it has created all the demerits of unplanned urbanisation.

**Finally**, a low flexible poverty line becomes irrational in terms of increased economic disparities. The economic survey shows that wealth distribution centralized in the hands of rich after adopting the LPG model of economic growth. In the end of 1990s, only.01% of the total population was holding 2.5 percent of the total wealth which increased to 5.1 percent in the year 2013. All of this happened due to favorable taxation policy and liberal loan distribution to richer segment of the society. At the same time, the definition and approaches to remove poverty were focused only to subsistence level survival efforts.

## DISCUSSIONS AND SUGGESTIONS

All of the above points raises three issues to resolve: 1) the correct identification of the '*basic requirements*' of the poor with sufficient scope for changes according to contemporary economic growth 2) an apparent approach to deliver required assistance to the concern poor without any leakage and 3) to attain the goal of poverty reduction, the costs of essentialities and must be in limits to sustain the purchasing power of the monetary assistance.

The first issue is clearly associated with the intentions of the government and the rest are associated with the financial as well as administrative proficiency.

### Define Poverty According to 'Growth' of the Economy

In the present measures of poverty there isn't any scope for 'more than survival' status of a household, which further reflects in the type of assistances under different poverty alleviation programs. So, to estimate the 'deprived population', a flexible 'poverty line' is required which may change according to the current status of the economy. In the present era of economic proficiency the consumption portfolio of any consumer has been changed accordingly and the 'needs for survival' expanded to minimal requirements for 'enhancement as human resource' as expenditure on health, education and transportation for attaining 'skills and resources' for overall individual development. No doubt, that the cost of minimal requirements for 'enhancement as human resource' will be higher than present poverty line measures but it will provide longrun solution for the chronic poverty.

### Need of a Structural Change

It's true that over the last decade, poverty declined consistently with the levels dropping from 37.2% in 2004-05 to 29.8% in 2009-10, but this decline hasn't improved the economic inequality at any level. In fact, this decline in poverty was an impact of higher GDP over the last two decades. However, this economic growth hasn't improved the employment conditions as expected and the employment grew merely by 0.5% per annum from 2004-05 to 2011-12 annum. At the same time, 92% of workers are still engaged in informal employment. Close to 276 million workers live below a poverty line of \$2 per day, and their bargaining positions have declined despite economy growth. On the other hand, due to inflationary consequences of consistent higher growth rate of GDP essential expenditure of lower income group increased considerably. The uneven distribution of growth increased the concentration of per capita incomes at the top during the post-reform period. As the distribution of incomes and expenditures has become more unequal, poor people have not gained sufficiently from rapid economic growth. According to the report by World Economic Forum and Oxfam for India reiterates this unfavourable distribution of wealth. In 1994, the top 10% of India's population and the bottom 40% controlled the same portion of India's wealth – around 25%. By 2010, India's top 10% controlled nearly 30% of India's assets, and the share of the lower 40% declined to 21%. Liberal and lenient loan policies for corporate and tax benefits to specific sectors' industries have increased the volume of assets of 'some'.

In these circumstances the meager financial assistance through employment schemes like MANREGA, or providing subsidized nutritional requirements (TPDS) only supports to fulfill their daily requirements to survive and lift their status from BPL to APL in monetary terms. But for a long run solution of the problem, the involvement of the poor in 'Growth' and 'profit gaining sectors' is an essentiality of time. The present supportive system to the poor reminds Regners Nurkse's 'poverty cycle', which is very difficult to crack with low government expenditures on health, education nutrition and employment programmes. In this context, providing of the high quality assistance and services with sufficient quantity

to improve the efficiency and economic proficiency of the human is necessary. Here are some suggestions to improve the present definitions and functioning of the poverty alleviation programmes:

### **Providing Nutrition**

In the recent years, food prices have raised unexpectedly and affected the level of real income of wages earners, especially for those who are already at near – subsistence level, the rising food prices have proved quite strenuous, causing misery and hunger. The food problem is severe not so much as a general problem but it is acute and exists in the real sense to those who are poor with meager purchasing power. The existing food security programmes are providing nutrition to poor families in form of rice and wheat at minimal cost. It fulfills the basic meal requirement of a household and helps in saving their expenditure on food. But daily nutritional needs are not limited to these two things only. After liberalization of agricultural trade (especially in case of pulses, fruits, vegetables, milk products and other necessary items) the prices of qualitative nutritional products became out of reach for the BPL and low income groups. In such conditions these BPL and low income groups have to spend more to maintain their nutritional requirements.

So, to fulfill the nutritional requirement of every person without any distinction of BPL or APL a strict price policy for the food items is required. It is common phenomenon that in the season of harvesting the prices become very low due to oversupply of any crop and it is the time when it gets stored in private cold storages of the big traders. After few days, these essentials become expensive due to fake scarcity created by the traders in wholesale markets of the concern goods. The government has very limited procurement facilities for the crops other than rice and wheat under the existing Public Distribution System due to lack of warehouses and cold storages. It is also a fact that in case of pulses, fruits, vegetables and dairy products the prices in international agro product markets also play a significant role and the big suppliers prefer to fulfill the international demand to earn more profits. Moreover, national and international trade practices have been shifted to the private sector, therefore the profits of market practices don't reach to the farmers.

So, the government must follow wide-ranging policies not only to raise agricultural production but also to maintain its supply to consumers at optimum price level. For this, the control on organized private sectors' intermediaries and the maintaining of buffer stock with appropriate Public distribution mechanism is essential. It will reduce the expenses on fulfilling of 'inelastic demands for food' and provide a scope for increasing the 'elastic demands' of other sector's goods and services.

### **Providing Health Services**

The pledge of basic health facilities to all is the second major issue for poverty alleviation concerns. For the poor households expenditure on health facilities is a major head which can be reduced by establishment of required health infrastructure. It's true that improved accessibility to the primary health centres, successive immunization programmes, effective family welfare programmes and different other health programmes have improved the health and demographic indicators of the poor population, but, the health indicators in relatively poor states are still far behind from the Population Policy 2000 targets. Between 2010 and 2013, Bihar, Jharkhand, Uttar Pradesh, Uttarakhand, Madhya Pradesh, Chhattisgarh, Orissa, Rajasthan and Assam put together had more than 20% of all their deaths happening between 0-4 age group and had 42% of all female deaths happening because of communicable, maternal, perinatal and nutritional conditions. In NFHS – 4 and other 'out- pocket expenditure on health surveys' it is estimated that more than 60 million people are pushed into poverty every year in India because of healthcare payments. Moreover, malnutrition presents a

formidable policy challenge as well, it is reported that economic burden of malnutrition is expected to be between 0.8% and 2.5% of India's overall GDP.

The personal health expenditures are exceeding day by day due to excessive population pressure on existing conventional public health infrastructure. A significant number of posts are vacant in the PHCs (Primary Health Centres), CHCs (Community Health Centres). A large number of posts in government health institutions are vacant. There is only one doctor per 1,700 citizens in India; the World Health Organisation stipulates a minimum ratio of 1:1,000. In the rural areas the conditions are bitter. To solve the problem of scarcity of the health services some state governments have started the implementation of Public Private Partnership model in health sector to facilitate the poor segment of the society. Unfortunately, it has increased the cost of treatment without any qualitative change. In these perspectives, pledge of affordable and qualitative health services to the poor is a big issue to solve. The better health facilities will reduce the expenditure of poor households and will improve the demographic profile of the concern region. 'Kerala Model' of development which was implemented in 1970's has proved the significance of health services in improving not only the health and demographic indicators but also in reducing the poverty.

### **Enhancement in Skills and Education**

In Indian context, demographic transition has increased the share of youths in population and has provided an opportunity to foster the development of the economy but, it is a big challenge to convert this young potential as a beneficial human resource. After globalization and technical interference in production functions, the demand for educated and technically efficient manpower has increased, but the dearth of essential qualities in this increased workforce is still a big lacuna attached with gusto. A considerable share of workforce is unemployed or underemployed and has broader consequences for the future prosperity and development of the country. It is well mentioned in several reports and studies, that a significant number of rural youth are underemployed, unemployed or seeking employment either at their native places or nearby urban areas. The unemployment rate in the country during 2012-13 was estimated to be 18.1, 13.0 and 13.3 per cent respectively among age groups 15-24, 18-29 and 15-29 under UPS approach at All India level in labour ministry report on '*Youth employment - unemployment scenario, 2012-13*'. The main reason behind the problem of inefficient or low skilled manpower is the crisis of learning. The inappropriate education facilities and lack of vocational training in rural and backward areas are the main causes for the multitude of semi-literate people.

No doubt, all parents are aware that education and skill learning are the necessary qualifications for getting jobs in industrial and service sectors. They want to send their children in good schools and colleges to get education and learn skills for a secure, well-paying employment but the price of qualitative education is too high to bear for any lower income family. Although, an assurance for quality education to a child is a major concern to improve his/her efficiency and economic productivity as a human resource, yet a large share of women, minorities and poor are left behind from the benefits of education.

It is necessary to provide class education at the rate of an affordable cost to a large share of population who can't afford the private sector's modern education facilities. Especially in the rural areas where any cost for education is high due to lower incomes of the deprived sections of the society it should be least in cost and preeminent in quality. The expansion of infrastructural facilities and increasing number enrolments don't assure the quality and productivity of formal education system which is still based on age-old technique of bookish knowledge and gaining marks in exams. In present scenario, there is a need of more flexible and constructive education system from elementary level to higher

standards which can provide more knowledge with skills for future employment opportunities. In service and manufacturing sectors the knowledge of technology and awareness about contemporary skills are an essentiality for better economic opportunities so it is a need of time to include the knowledge of computer and technical efficacy in curriculum at different stages of formal education. Finally, the deviance, innovation, and creativity should be encouraged in process of learning and in education system itself.

## CONCLUSIONS

Indian economy has achieved several growth targets in the post – reform era which can be seen in upraising curves of national income growth rates, per capita income, foreign reserves etc. but at the same timeline the stagnant values of Human Development Indicators and poverty ratios reveal the uneven distribution of this growth. The development of any population depends not only on its own efforts but also on the public interest policies of the concern government. It is more agonizing that with the growth of economy centralization of profits is increasing and gainers are providing only *subsistence* to them who are the cost bearer of this growth. So the government should come forward with such policies which will provide not only health, education and employment to its people but also connect them with the mainstream of growth development.

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